

Message Text

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PAGE 01 PARIS 06190 01 OF 04 230107Z
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 OIC-02 DOE-11 SOE-02 /120 W
-----123271 230117Z /64

P R 222238Z FEB 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC PRIORITY 7147
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 04 PARIS 06190

USOECD

BRUSSELS ALSO FOR USEEC

PASS TREASURY, FEDERAL RESERVE AND CEA

E.O. 11652: GDS
TAGS: EFIN, ECON, ENRG, OECD
SUBJECT: CHAIRMAN'S SUMMARY OF FEBRUARY 16-17
MEETING OF WP-3

1. SECRETARIAT HAS RELEASED CLEARED "CHAIRMAN'S SUMMARY" OF FEBRUARY 16-17 MEETING OF WORKING PARTY THREE OF THE ECONOMIC POLICY COMMITTEE WHICH CARRIES "STRICTLY CONFIDENTIAL" CLASSIFICATION AND IS BEING SENT ONLY TO CONFIDENTIAL

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PAGE 02 PARIS 06190 01 OF 04 230107Z

PRINCIPAL MEMBERS OF WP-3 AND TO HEADS OF DELEGATIONS OF WP-3 MEMBER COUNTRIES. TEXT APPEARS IN PARAGRAPH 3. SUBSEQUENT SEPTTEL WILL PROVIDE US DEL'S REPORT ON MEETING.

2. SECRETARIAT ANTICIPATES THAT WP-3 CHAIRMAN MATSUKAWA WILL PRESENT ORAL REPORT DURING MORNING SESSION OF FIRST DAY OF ECONOMIC POLICY COMMITTEE'S MEETING (FEBRUARY 27-

28) WHICH DRAWS ON THIS WRITTEN SUMMARY.

3. BEGIN TEXT

(1) THE FIRST DAY'S DISCUSSION STARTED BY LOOKING AT CERTAIN GENERAL FEATURES OF THE EXCHANGE MARKET SITUATION AND THE BALANCE OF PAYMENTS ADJUSTMENT PROCESS, WITH PARTICULAR ATTENTION BEING PAID TO THE UNITED STATES CURRENT DEFICIT AND ITS FINANCING.

-- THE UNITED STATES REAFFIRMED ITS DETERMINATION TO INTERVENE IN EXCHANGE MARKETS WHERE NECESSARY TO COUNTER DISORDERLY CONDITIONS, BUT NOT TO DEFEND ANY PARTICULAR RATE. THE UNITED STATES ALSO THOUGHT THAT THE CURRENT ACCOUNT MIGHT BEGIN TO SHOW SOME MODERATE IMPROVEMENT BY THE END OF THE YEAR, AND THAT THE FUNDAMENTAL PROBLEM IS THE PERSISTENT PATTERN OF SLOW GROWTH IN ITS PARTNER COUNTRIES.

-- SOME COUNTRIES RECOGNISED DOMESTIC DIFFICULTIES ARISING OUT OF THE DISORDER IN EXCHANGE MARKETS, THE EFFECT OF INTERVENTION ON MONETARY MANAGEMENT AND/OR RECENT VERY RAPID APPRECIATION OF THEIR CURRENCIES.

-- A NUMBER OF SPEAKERS FELT THAT THE EXTENT OF OFFICIAL FINANCING OF THE LIKELY UNITED STATES CURRENT
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PAGE 03 PARIS 06190 01 OF 04 230107Z

ACCOUNT DEFICIT FOR 1978 WOULD BE SIGNIFICANTLY LESS THAN IN 1977 - THAT THE PROBLEM OF FINDING "WILLING HOLDERS" OR "WILLING BUYERS" OF UNITED STATES DOLLARS AT APPROXIMATELY THE PRESENT EXCHANGE RATE COULD BECOME SEVERE.

-- UNDER THE CIRCUMSTANCES, THE POSSIBILITY OF FURTHER DEPRECIATION OF THE DOLLAR - WITH SOME RISK OF SERIOUS "OVERSHOOTING" - WAS RECOGNISED, ALTHOUGH THE US DELEGATION EMPHASISED THAT SUCH A MOVEMENT NEED NOT BE INEVITABLE ON FUNDAMENTAL GROUNDS, SINCE THE COMPETITIVE POSITION DOES NOT APPEAR INADEQUATE AND THE ATTRACTIVENESS OF THE UNITED STATES ECONOMY AND CAPITAL MARKETS REMAIN STRONG.

-- THE FAMILIAR PROBLEMS OF EXPECTATIONAL OR PSYCHOLOGICAL ELEMENTS IN THE SHORT-TERM DETERMINATION OF EXCHANGE RATES WERE EMPHASISED, AND THE NEED TO MAINTAIN CONFIDENCE IN THE MARKET IN ORDER TO AVOID DESTABILISING SPECULATION CITED, ALTHOUGH, AS USUAL, IT WAS NOT QUITE CLEAR HOW THIS MIGHT BE ACCOMPLISHED UNDER PRESENT CIRCUMSTANCES.

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PAGE 01 PARIS 06190 02 OF 04 230108Z
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OMB-01 SS-15 OIC-02 DOE-11 SOE-02 /120 W
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P R 222238Z FEB 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC PRIORITY 7148
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
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C O N F I D E N T I A L SECTION 02 OF 04 PARIS 06190

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(2) DURING A SUBSEQUENT TOUR OF THE TABLE, A NUMBER OF
MORE SPECIFIC POINTS WERE MADE. AS M. DE LAROSIERE
OBSERVED, THERE ARE CONTRADICTORY DEMANDS ON POLICY IN
THE PRESENT SITUATION:

-- THERE WAS A GENERAL FEELING THAT IT WOULD NOT BE
APPROPRIATE TO REDUCE THE RATE OF GROWTH IN THE UNITED
STATES IN ORDER TO PROMOTE BALANCE OF PAYMENTS ADJUST-
MENT;

-- SOME COUNTRIES FIND THE CONSEQUENCES OF ACTION TO
PROMOTE GREATER EXPANSION IN THEIR OWN ECONOMIES
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PAGE 02 PARIS 06190 02 OF 04 230108Z

UNACCEPTABLE ON POLITICAL GROUNDS (THERE WAS EXTENSIVE DISCUSSION AT THIS POINT IN CONNECTION WITH POSSIBLE POLICY MEASURES);

-- NO-ONE DESIRES OVER-RAPID MOVEMENTS IN EXCHANGE RATES, WHICH MAY THEMSELVES INTRODUCE A DEFLATIONARY BIAS INTO THE SYSTEM.

IN THE ABSENCE OF SOME REDUCTION OF DIFFERENTIALS IN GROWTH RATES, HOWEVER, PERSISTENCE OF EXISTING IMBALANCES IN PAYMENTS PATTERNS COULD BECOME UNSUSTAINABLE, AND FURTHER EXCHANGE RATE ADJUSTMENT WOULD SEEM INEVITABLE.

(3) SEVERAL SPEAKERS ASKED WHAT MIGHT BE THE EFFECTS OF NOT TAKING ACTION TO RAISE THE RATE OF EXPANSION OUTSIDE THE UNITED STATES. THE THREAT OF A PROTECTIONIST RESPONSE WAS MENTIONED IN THIS CONNECTION. OTHER RISKS IDENTIFIED INCLUDED FURTHER INCREASES IN UNEMPLOYMENT FROM ALREADY UNACCEPTABLY HIGH LEVELS, INCREASING STATE INTERVENTION, AND ADVERSE EFFECTS ON LONGER RUN PRODUCTIVITY, INVESTMENT AND GROWTH PERFORMANCE.

(4) THE QUESTION HAS THEREFORE BEEN POSED, WHAT MIGHT BE THE ELEMENTS OF A COORDINATED POLICY - CONCERTED ACTION - WHICH WOULD PROMISE SOME HOPE OF RESOLVING THESE CONTRADICTIONS WHILE STILL RESPECTING THE BASIC POLITICAL OR POLICY COMMITMENTS OF INDIVIDUAL COUNTRIES? A NUMBER OF KEY ELEMENTS OF SUCH A COLLECTIVE PROGRAMME OF ACTION WERE MENTIONED DURING THE DISCUSSION. AT THE RISK OF OVER-SIMPLIFYING, AND PERHAPS OF BEING SLIGHTLY PROVOCATIVE, IT SEEMS THERE

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PAGE 03 PARIS 06190 02 OF 04 230108Z

IS A WIDE MEASURE OF AGREEMENT ON THE FOLLOWING POINTS:

-- THE UNITED STATES AUTHORITIES HAVE THE SUPPORT OF EVERYONE IN THEIR EFFORTS TO PRODUCE AN EFFECTIVE ENERGY PROGRAMME;

-- THE EFFECTS OF FASTER EXPANSION OF DOMESTIC DEMAND IN SOME STRONG COUNTRIES WOULD BE SO FAVOURABLE THAT VARIOUS SPEAKERS ASKED THOSE COUNTRIES WHETHER THEY COULD NOT RECONSIDER THE POSSIBLE SCOPE FOR FURTHER ACTION, PARTICULARLY IN VIEW OF THE DEFLATIONARY EFFECT OF RECENT CURRENCY APPRECIATIONS. MORE SPECIFICALLY,

IT WAS SUGGESTED THAT THE POSSIBILITY OF TAX CUTS FOR BOTH BUSINESS AND HOUSEHOLDS COULD BE EXAMINED;

-- OTHER COUNTRIES WOULD EXPAND TO THE EXTENT THEIR CONSTRAINTS PERMITTED, BUT WOULD CONCENTRATE ABOVE ALL ON THE STABILISATION OBJECTIVE;

-- THERE MAY BE SCOPE FOR A SLIGHTLY WIDER INTEREST RATE DIFFERENTIAL BETWEEN THE UNITED STATES AND OTHER COUNTRIES, WITH SOME PRESUMPTION IN THE PRESENT CONJUNCTURE THAT THIS COULD BEST BE BROUGHT ABOUT BY A LOWERING OF RATES OUTSIDE THE UNITED STATES;

-- SEVERAL SPEAKERS ATTACHED IMPORTANCE TO THE EFFECTIVE OPENING UP OF THE JAPANESE MARKET TO FOREIGN EXPORTERS, THOUGH RECOGNISING THE INTERNAL EFFORTS AND DIFFICULTIES INVOLVED;

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PAGE 01 PARIS 06190 03 OF 04 230053Z
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P R 222238Z FEB 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC PRIORITY 7149
INFO AMEMBASSY BERN
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C O N F I D E N T I A L SECTION 03 OF 04 PARIS 06190

USOECD

-- COLLECTIVE ACTION ALONG THESE LINES COULD BE EXPECTED TO IMPROVE EXCHANGE MARKET EXPECTATIONS AND WOULD, IF DESIRED, PROVIDE A BASIS FOR A MORE ACTIVE CO-ORDINATED INTERVENTION POLICY, THOUGH NO-ONE IS IN FAVOUR OF DEFENDING PRECISE RATES.

(5) THE SECOND MORNING WAS TAKEN UP BY A MORE DETAILED DISCUSSION OF THE IMPLICATIONS OF THE ENERGY OUTLOOK AND OF INTERNATIONAL COMPETITIVENESS.

(6) ALTHOUGH THE ENERGY OUTLOOK IS VERY CLOSELY RELATED TO THE DEVELOPMENT OF INTERNATIONAL PAYMENTS, CONFIDENTIAL

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PAGE 02 PARIS 06190 03 OF 04 230053Z

THE EXCHANGE OF VIEWS AT THIS STAGE WAS OF A PRELIMINARY NATURE.

-- DURING DISCUSSION, THE UNITED STATES DELEGATION REITERATED THE POSSIBLE COMPROMISE FOR THE RAPID PASSAGE OF THE ENERGY BILL IN CONGRESS AND ALSO REFERRED TO THE RECENT MAJOR IMPROVEMENT OF ENERGY UTILISATION IN THE UNITED STATES.

-- PRIMARY CONCERN WITH RESPECT TO THE ENERGY PROBLEM IS NATURALLY DIRECTED TO THE POLICY OF THE UNITED STATES; HOWEVER, REFERENCE WAS ALSO MADE TO THE IMPORTANCE OF THE POLICY EFFORTS OF OTHER COUNTRIES IN THE ENERGY FIELD.

-- IT WAS ALSO POINTED OUT THAT THE MORE SUCCESSFUL ARE EFFORTS TO ACHIEVE BETTER GROWTH, THE GREATER THE NEED FOR CONCERN ABOUT ENERGY PROBLEMS AND THE RELATIVE PRICE TREND OF OIL IN THE FUTURE.

-- AS TO THE LONGER-TERM PROSPECT, THERE ARE SO MANY VARIABLES THAT IT IS IMPOSSIBLE TO SAY ANYTHING DEFINITE.

(7) THE DISCUSSION OF COMPETITIVE POSITIONS WAS BACKED UP BY SOME INTERESTING MATERIAL PREPARED BY THE SECRETARIAT, IN PARTICULAR THE INCLUSION - FOR THE FIRST TIME - OF MATERIALS COSTS IN THE ANALYSIS. IN OUR VERY USEFUL DISCUSSION IT WAS GENERALLY AGREED THAT THIS MATERIAL MUST BE HANDLED AND INTERPRETED VERY CAREFULLY, ESPECIALLY IF IT IS ATTEMPTED TO USE THESE MEASURES TO ASSESS CURRENCY OVERVALUATION OR "OVERSHOOTING". DIFFICULTIES ARISE HERE DUE TO: CONFIDENTIAL

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PAGE 03 PARIS 06190 03 OF 04 230053Z

-- CHOICE OF APPROPRIATE BASE PERIOD;

-- CHOICE OF INDICATOR SERIES (CPI, WPI, EXPORT PRICES,
COSTS, ETC.);

-- NEED TO APPROPRIATELY TAKE ACCOUNT OF CYCLICAL
BEHAVIOUR IN BOTH PRODUCTIVITY AND PROFITS;

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PAGE 01 PARIS 06190 04 OF 04 230054Z
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C O N F I D E N T I A L SECTION 04 OF 04 PARIS 06190

USOECD

-- THE EXTENT TO WHICH NON-LABOUR COSTS, I.E. MATERIALS
COSTS OR CAPITAL COSTS, ARE TAKEN ACCOUNT OF;

-- THE EFFECT OF PROFIT SQUEEZING ON THE CALCULATED INDICATORS.

HENCE THERE IS A DANGER OF MISINTERPRETATION OF THIS MATERIAL AND LIMITS ON THE EXTENT TO WHICH IT CAN BE USED TO ASSESS THE VALUE OF A GIVEN CURRENCY. IN THIS CONNECTION IT WAS NOTED THAT INVISIBLES AND CAPITAL MOVEMENTS ALSO EFFECT EXCHANGE RATES.

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PAGE 02 PARIS 06190 04 OF 04 230054Z

(8) HOWEVER, THIS WORK WAS THOUGHT TO PROVIDE VERY USEFUL MATERIAL IN JUDGING THE INTERNATIONAL COMPETITIVENESS OF TRADED MANUFACTURED GOODS - WITH ITS IMPLICATIONS FOR THE ADJUSTMENT OF TRADE BALANCES. HENCE, APPRECIATION WAS EXPRESSED TO THE SECRETARIAT FOR ITS EFFORT IN PREPARING THIS MATERIAL AND IT WAS FELT THAT THIS WORK SHOULD CONTINUE, BEARING IN MIND THE WORKING PARTY'S COMMENTS.

END TEXT
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Message Attributes

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